FitchRatings
*Rating Action Commentary*

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**Fitch Rates Bernalillo County, New Mexico GO Bonds 'AA+'**

Fitch Ratings–Austin–September 9, 2005: Fitch Ratings assigns a rating of 'AA+' to Bernalillo County (the county), New Mexico's $13.9 million general obligation (GO) refunding bonds, series 2005, which are scheduled to sell on Sept. 13 via negotiation to George K. Baum & Co. Fitch also affirms its 'AA+' rating to the county's outstanding $80.3 million GO bonds. The Rating Outlook is Stable.

The bonds are payable from ad valorem taxes which may be levied against all taxable property within the county without limitation as to rate or amount. Proceeds will be used to refund a portion of the county's outstanding GO debt and to pay issuance costs.

Fitch's rating of 'AA+' reflects the county's sound financial management and large financial reserves, diversified and growing tax base, modest debt levels and above average pay out rate. The county's role as New Mexico's principal population center has resulted in steady gross receipts tax (GRT) revenue growth even during recent recessionary periods. The absence of additional margin in its operating levy limits some of the county's financial flexibility although this is mitigated by the county's recent enactment of additional GRTs for general operations and public safety. Although the county is more dependent on economically sensitive GRTs, the maintenance of sizeable reserves offsets this risk.

As the state's largest county, the county's population grew 17% in the 2000 census and totaled over 580,000 residents in 2003, fueling strong property tax base growth that has increased by a compound annual average of 5% since fiscal 2000, including a 9% increase in fiscal 2006. Located within the county, the City of Albuquerque (GO bonds rated 'AA' by Fitch) comprises about 80% of the county's population. The remaining population in the unincorporated areas of the county represents the second largest population in the state.

As a sign that economic recovery may be underway, employment growth for the 12-month period ending July 2005 totaled 6,300 jobs or 1.7%, aided by the city's strong housing construction market. However, due to very high growth in its workforce of over 3%, the county's unemployment rate increased to 5.7% in July 2005, below the state average but above the national rate. Kirtland Air Force Base, Sandia National Labs, and Intel are among the area's largest employers, helping transform the area economy into a hub for electronics, aviation and aerospace, and defense-related research and development. Kirtland Air Force Base is scheduled to receive a small net increase of personnel as a result of the Department of Defense's base realignment and closure actions.

The current offering is a straight refunding with net present value savings projected at $413,000 or 3.1% of refunded bonds. The county maintains a formal capital improvement plan, whose local portion has been historically financed with $16 million in voter-approved GO bond authorizations every two years. Along with over $80 million in GO bonds outstanding, the county has about $192 million in GRT-secured debt outstanding (rated 'AA' by Fitch), resulting in modest direct debt levels of $459 per capita and less than 1% of full market value. Overall debt levels are low to moderate at slightly more than $1,000 per capita and 1.6% of full market value. The GO bonds' pay out rate is rapid at over 62% in 10 years.

The county's general fund has historically maintained large reserves with total fund balances of at least 32%-50% of expenditures and transfers out since fiscal 1999. In addition to the state's mandated three month reserve for subsequent year's expenditures, the county has typically generated unencumbered reserves and further cushions its position with a $4 million-$5 million stabilization reserve. Substantial liquidity has also been maintained in the general fund with cash totaling over four months of operating expenses. Preliminary unaudited fiscal 2005 results point to an $8 million operating surplus and the adopted fiscal 2006 budget projects using $6.5 million of reserves for a new financial management system, although conservative revenue estimates may allow the county to outperform its projections.

The fiscal 2005 budget imposed two additional GRTs comprised of the county's third 1/8% increment for general purposes and a 1/16% levy for correctional facilities, effective Jan. 1, 2005. Together, these will generate an additional $25.5 million annually to be used for public safety and roads. As a result, GRTs as a percentage of general fund revenues would increase from 28% in fiscal 2004 to almost 40% in fiscal 2006. The resulting GRT of slightly over 6% is still lower than all New Mexico counties, the City of Albuquerque (6.75%), and all major cities in the southwest United States.

As the county's largest expenditure category, public safety comprised over 40% of total general fund spending in fiscal 2004 and increased by over 26% since the opening of the Metropolitan Detention Center (MDC) in July 2003. With MDC operating costs projected to increase 10% annually, the recent imposition of the GRTs will relieve operating pressures on the general fund for this new facility. Jointly financed by the county and the City of Albuquerque, both parties have historically evenly split the operating costs of the facility which total over $40 million per year. However, the city of Albuquerque is contemplating withdrawing from this arrangement, potentially increasing the county's operating cost by about $27 million per year. If needed, county officials plan to impose the remaining 1/8% increment for correctional facilities to cover these additional costs. The availability of several other GRTs help mitigate some of the credit concerns over the potential operating pressures that may result from the county becoming the sole operator of the MDC.